

**CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN CC DOCKET NO.
01-92, WC DOCKET NOS. 05-337, 07-135, 10-90 AND GN DOCKET NO. 09-51 BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION**

Before The
Federal Communications Commission
Washington, D.C. 20554

FILED/ACCEPTED

SEP - 6 2011

Federal Communications Commission
Office of the Secretary

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN Docket No. 09-51
)	
Establishing Just and Reasonable Rates for Local Exchange Carriers)	WC Docket No. 07-135
)	
High Cost Universal Service Support)	WC Docket No. 05-337
)	
Developing a Unified Intercarrier Compensation Regime)	CC Docket No. 01-92
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	
Lifeline and Link-Up)	WC Docket No. 03-109

**REPLY COMMENTS OF NEUTRAL TANDEM
IN RESPONSE TO AUGUST 3, 2011 NOTICE OF FURTHER INQUIRY**

Neutral Tandem respectfully submits these reply comments in response to the Commission's Notice of Further Inquiry into Certain Issues, released on August 3, 2011 in the above-listed dockets.

INTRODUCTION

Neutral Tandem has submitted three rounds of comments, with accompanying declarations and other record support, in this proceeding.¹ In those comments, Neutral Tandem has explained that competitive alternatives to the local tandem transit service provided by

¹ See April 18 Comments of Neutral Tandem (April 18, 2011); May 23 Reply Comments of Neutral Tandem (May 23, 2011); Decl. of Surendra Saboo, Ex. B to Neutral Tandem's Reply Comments (May 23, 2011); Decl. of Gerard Laurain, Ex. A to Neutral Tandem's May 23 Reply Comments (May 23, 2011); see also April 1, 2011 Comments of Neutral Tandem.

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Incumbent Local Exchange Carriers (“ILECs”) are widely available.² Neutral Tandem has further explained that competitive carriers make aggressive use of these widely-available alternatives, rendering the assertions made by carriers who have claimed in this proceeding that they lack competitive options to ILEC-provided local transit service highly suspect.³

Neutral Tandem further explained that imposition of TELRIC-based pricing on ILECs’ local tandem transit services is unnecessary.⁴ As a practical matter, the result of such regulation would be felt not by the ILECs, but rather by competitive transit providers such as Neutral Tandem, whose services are widely used by the same carriers asking the Commission to regulate the ILECs’ local transit pricing. Neutral Tandem also provided a detailed legal analysis explaining that nothing in the Telecommunications Act of 1996 (“1996 Act”) requires that local tandem transit service be provided at TELRIC-based rates.⁵

Neutral Tandem will not repeat these points in these comments, and instead respectfully refers the Commission to Neutral Tandem’s prior submissions. Neutral Tandem will instead focus in these comments on responding to assertions made by certain carriers in their August 24 comments. Neutral Tandem’s comments will focus on three points.

First, the carriers seeking TELRIC pricing regulation have failed to provide any data or evidence showing that they are forced to use ILEC local tandem transit for any substantial amounts of traffic. At most, they have argued that there may be a small number of carriers with which they can exchange a small amount of traffic only through ILEC local transit. They have offered no evidence of how much traffic is implicated in those situations, but it is clear from

² See May 23 Reply Comments of Neutral Tandem, at 3-7 & Ex. B, Saboo Decl. (May 23, 2011).

³ See *id.*

⁴ See *id.*, at 7-12; April 18 Comments of Neutral Tandem, at 6-8.

⁵ See *id.*

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what these carriers say (and do not say) that, for the vast majority of traffic, they have multiple competitive options for delivering their local tandem transit traffic.

If these carriers really believed they lack competitive options for local tandem transit service, they should have supplied the Commission with detailed information supporting that position, including specific information regarding: (1) the carriers from which they obtain local tandem transit service by market; (2) the volumes of local tandem transit service they obtain from each provider; (3) the prices they pay for such service, including whether their prices have increased or decreased over time; and (4) how much local traffic they deliver through direct connections, instead of using a transit provider. Indeed, it would be inappropriate for the Commission to adopt the drastic price regulation these carriers have requested, without a more fully developed evidentiary record on these points. Simply put, the carriers' failure to provide anything other than bare assertion in support of their request for widespread price regulation speaks volumes.

Second, recent market activity reinforces that, as Neutral Tandem explained in its prior comments, pricing for local transit service continues to decline, as carriers make aggressive use of their multiple competitive options in the local transit market.

Third, while some carriers have pointed to a recent decision in Connecticut in which the state commission imposed TELRIC-based pricing on ILEC transit, experience in that state reinforces Neutral Tandem's point that carriers are not asking the Commission to adopt TELRIC-based pricing because they lack competitive alternatives for any meaningful amounts of traffic. Instead, such regulation merely gives those carriers a basis to demand price reductions for local transit service in situations where competitive alternatives already exist.

ARGUMENT

I. THERE IS NO EVIDENCE IN THIS PROCEEDING THAT CARRIERS LACK COMPETITIVE ALTERNATIVES TO ILEC LOCAL TANDEM TRANSIT SERVICE FOR ANY SUBSTANTIAL AMOUNTS OF TRAFFIC.

In prior submissions, Neutral Tandem has shown that competitive local tandem transit service is widely available. Neutral Tandem alone provides service in 189 of the 192 LATAs in the continental United States.⁶ The only LATAs in which Neutral Tandem does not provide service are a LATA comprised entirely of an island in New York with 250 residents, and two LATAs comprising some (but not all) of the Navajo Nation.⁷ Several other non-ILEC carriers, including Level 3, HyperCube, Peerless Network, IntelePeer, and others, also provide competitive local tandem transit service.⁸

Despite the evidence presented by Neutral Tandem, various carriers persist in asserting that the market for local transit service is “not effectively competitive,” that ILECs have “market power” in the local transit market, and that “competitive tandem switching facilities are not widely available.”⁹ These carriers point to this supposed lack of competition as a basis to ask the Commission to require that ILECs provide local transit service at TELRIC rates.¹⁰ A specific group of carriers (hereafter the “Joint CLECs”) has gone so far as to contend that “Neutral Tandem has mischaracterized the tandem transit service market.”¹¹

⁶ See May 23 Reply Comments of Neutral Tandem, at 4 & Ex. A, Laurain Decl. (May 23, 2011).

⁷ See *id.*

⁸ See Ex. A, Saboo Decl., ¶ 19; see also Ex. B., Neutral Tandem, Inc. (Annual Report (Form 10-K), at 2 (filed Mar. 16, 2011).

⁹ Comments of Cbeyond, et al., at 18-19 (Aug. 24, 2011); Comments of Comcast, at 8 (Aug. 24, 2011); see also Comments of Cox, at 13-16 (Aug. 24, 2011); Comments of MetroPCS, at 20-22 (Aug. 24, 2011); Comments of NCTA, at 19-20 (Aug. 24, 2011).

¹⁰ See *id.*

¹¹ July 29, 2011 *ex parte* of Cbeyond, et al., at 2 (July 29, 2011).

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It is the Joint CLECs, not Neutral Tandem, that mischaracterize the market. At the outset, Neutral Tandem notes that it already has explained, in prior comments and declarations,

[REDACTED]

[REDACTED]

The Joint CLECs do not dispute these facts, because they know them to be true. Instead, they try to create the false impression that their competitive options are limited. First, the Joint CLECs point to Neutral Tandem's public statement that its services "are principally targeted to address . . . 55% of the total telephone numbers assigned primarily to competitive carriers" in the U.S.¹³ The Joint CLECs clearly intend to create the impression that they have no choice except to use ILEC local transit services to reach the other 45% of the country's telephone numbers.

What the Joint CLECs do not mention is that the other 45% of the telephone numbers referred to in Neutral Tandem's statement are numbers assigned to the ILECs themselves.¹⁴ In other words, those are phone numbers for which, by definition, the Joint CLECs do not need competitive local transit service, because they deliver traffic to and from these numbers via direct connections with the ILECs. The Joint CLECs' attempt to manipulate Neutral Tandem's public statements illustrates the lack of legitimate record evidence they can muster.

The lack of specificity in the Joint CLECs' submissions is highlighted by their refusal to provide anything other than the most general assertions in support of their positions. For example, they claim that Cbeyond "must still use the incumbent LEC's local tandem switch" in every market, but they provide no detail concerning how much traffic Cbeyond supposedly

¹² See May 23 Reply Comments of Neutral Tandem, at 3-7 & Ex. B, Saboo Decl. (May 23, 2011).

¹³ See July 29, 2011 *ex parte* of Cbeyond, et al., at 2 (July 29, 2011).

¹⁴ See Ex. B., Neutral Tandem, Inc. (Annual Report (Form 10-K), at 2 (filed Mar. 16, 2011); see also *id.* at 46 (describing the 55% of telephone numbers referred to in the Joint CLECs' *ex parte* as the numbers assigned to "all carriers that are not ILECs").

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“must” use ILEC transit to deliver.¹⁵ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

This fact is reinforced by the Joint CLECs’ concession that “Neutral Tandem pays for the cost of the trunks” needed to connect to the Joint CLECs.¹⁶ The Joint CLECs complain, though, of supposed instances in which there is not “sufficient traffic to justify the cost” of the connection.¹⁷ They also note that in markets where “the addressable market for competitive tandem transit service is severely limited, a LEC may not have sufficient traffic to justify the deployment of a DS3 dedicated to the transport of transiting traffic.”¹⁸

In other words, the Joint CLECs tacitly acknowledge that the only situations in which they may be forced to rely on ILEC transit are in situations where the amount of traffic they exchange with another carrier is so small that it would not justify a direct connection, or even a connection to a competitive transit traffic provider. In other words, the Joint CLECs have tacitly acknowledged that the amount of traffic for which they supposedly lack delivery options for their traffic is minimal.

This puts the lie to the claim that the Joint CLECs, and others, are making about the competitive market for transit service. Simply put, carriers have multiple competitive options available for delivering the vast majority of traffic, if not all traffic, they need to exchange

¹⁵ See July 29, 2011 *ex parte* of Cbeyond, et al., at 2-3 (July 29, 2011).

¹⁶ *Id.*, at 4.

¹⁷ *Id.*

¹⁸ *Id.*

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indirectly with other carriers.¹⁹ These options include not only Neutral Tandem, but also other providers of competitive local tandem transit service, whose existence the Joint CLECs' comments refuse to acknowledge.

If the Joint CLECs, or any of the other carriers in this proceeding, really believed they faced a serious problem with local transit, they would have put evidence in the record supporting that position, including specific information concerning: (1) the carriers from which they obtain local tandem transit service by market; (2) the volumes of local tandem transit service they obtain from each provider; (3) the prices they pay for such service, including whether their prices have increased or decreased over time; and (4) how much traffic they deliver through direct connections. Absent that information, there is simply no basis in the record that would justify a decision to require ILECs to provide local transit service at TELRIC-based rates.

II. RECENT MARKET ACTIVITY CONFIRMS THAT PRICING FOR LOCAL TRANSIT SERVICE CONTINUES TO DECLINE AS A RESULT OF CARRIERS MAKING USE OF THEIR COMPETITIVE OPTIONS.

As noted above, Neutral Tandem has provided numerous, specific examples of carriers' use of multiple competitive options for local tandem transit service, and the concomitant impact on pricing for that service, in its prior comments. Even in the three months since those comments were filed, additional market activity involving carriers asking the Commission to impose TELRIC pricing regulation on ILEC transit service, confirms the hotly competitive nature of the local transit market.

¹⁹ Of course, carriers always have the option of bypassing all intermediate local tandem transit providers, and exchanging traffic directly with other carriers. As shown by the Joint CLECs' *ex parte*, they do so whenever they feel there is enough traffic to justify such a direct connection. *See id.* To the extent the Joint CLECs complain about specific ILECs' allegedly improper imposition of transit charges in certain situations, and/or other allegedly improper conduct by the ILECs, those issues would be appropriately addressed on a targeted basis, not through an industry-wide rulemaking. *Id.*, at 2-4.

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For example, Comcast has submitted comments asserting that “competitive tandem switching facilities are not widely available[.]”²⁰ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

In addition to Comcast, MetroPCS has submitted comments, in which it asserts that the pricing of local transit service by ILECs “needs to be promptly addressed by the Commission.”²⁷

[REDACTED]

[REDACTED]

[REDACTED]

²⁰ Comments of Comcast, at 8 (Aug. 24, 2011).

²¹ Ex. A, Saboo Decl. ¶ 7.

²² *Id.* ¶¶ 7, 9.

²³ *Id.* ¶ 7.

²⁴ *Id.* ¶ 8.

²⁵ *Id.* ¶ 8.

²⁶ *Id.* ¶ 9.

²⁷ Comments of MetroPCS, at 20 (Aug. 24, 2011).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

This, however, is hardly the sign of a market in which carriers lack competitive choice.

III. EVENTS IN CONNECTICUT REINFORCE THAT REGULATION OF ILEC TRANSIT PRICES SIMPLY GIVES CARRIERS LEVERAGE TO DEMAND PRICE REDUCTIONS FROM COMPETITIVE TRANSIT PROVIDERS.

Finally, Neutral Tandem notes that several carriers have submitted comments pointing to recent decisions from the state commission and federal district court in Connecticut, which have resulted in the ILEC in that state being forced to make local transit service available at TELRIC-based rates.³² Several carriers advocating that the FCC adopt TELRIC-based pricing for ILEC local transit – including Comcast, Cox, Charter, and MetroPCS – participated in the Connecticut proceeding, and made similar arguments.³³

Neutral Tandem's experience shows that the imposition of TELRIC-based local transit pricing in Connecticut had nothing to do with any lack of competitive alternatives to ILEC local transit, and it certainly did not provide a vehicle for competitive carriers to avoid alleged excessive ILEC pricing. [REDACTED]

²⁸ Ex. A, Saboo Decl. ¶ 12.

²⁹ *Id.*

³⁰ *Id.* ¶ 14.

³¹ *Id.*

³² Comments of Comcast, at 9 (Aug. 24, 2011); *see also* Comments of Cox, at 13-14 (Aug. 24, 2011); Comments of MetroPCS, at 21-22 (Aug. 24, 2011); Comments of NCTA, at 19-20 (Aug. 24, 2011).

³³ Ex. A, Saboo Decl. ¶ 15.

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[REDACTED]

As events in Connecticut illustrate, the clear aim of these requests for regulation of local transit rates is not to lower the ILECs' transit rates because carriers lack competitive alternatives for substantial amounts of traffic. Rather, the aim is to use the regulatory process to force ILECs to offer below-market rates as a benchmark, so that carriers can then attempt to force competitive local transit providers such as Neutral Tandem to match those below-market rates.

³⁴ *Id.* ¶ 16.

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.* ¶ 17.

³⁸ *Id.* ¶ 17.

³⁹ *Id.* ¶ 18.

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CONCLUSION

The Commission has made clear that any new rules related to transit service should be adopted only if they “advance the goals of the Act.”⁴⁰ Mandating below-market rates for services that are widely available on a competitive basis does not advance the goals of the Act, and is not an appropriate use of this Commission’s regulatory authority.

Respectfully submitted,
NEUTRAL TANDEM, INC.

/s/ John R. Harrington

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⁴⁰ Notice of Proposed Rulemaking & Further Notice of Proposed Rulemaking, WC Docket Nos. 10-90, et al. ¶ 683 (rel. Feb. 9, 2011).

Exhibit A

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In the Matter of)	
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Developing a Unified Intercarrier Compensation Regime)	CC Docket No. 01-92
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	
Lifeline and Link-Up)	WC Docket No. 03-109

DECLARATION OF SURENDRA SABOO

1. I am the President and Chief Operating Officer of Neutral Tandem, Inc. (“Neutral Tandem”). In that capacity, I am responsible for all of Neutral Tandem’s operations, including its operations throughout the United States. Neutral Tandem’s sales organization in the United States reports to me. I am familiar with the markets in the United States in which Neutral Tandem provides local transit service, as well as the competitive landscape surrounding local transit service generally.¹

2. I previously provided a declaration in this proceeding on May 23, 2011. In that Declaration, I responded to assertions made by Charter Communications, Inc. (“Charter”),

¹ For purposes of this Declaration, when I use the phrase “local transit service,” I mean a service provided by Neutral Tandem and other intermediate carriers that allows originating and terminating carriers to exchange non-access traffic through the network of the intermediate carrier, as opposed to exchanging that traffic through direct interconnection between the originating and terminating carrier.

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Cbeyond Communications Company, LLC (“Cbeyond”), Integra Telecom, Inc. (“Integra”), TW Telecom Inc. (“TWT”), MetroPCS Communications, Inc. (“MetroPCS”), and Cox Communications, Inc. (“Cox”), concerning the market for local transit service.

3. In that Declaration, I provided specific descriptions [REDACTED]

4. The purpose of this Declaration is to provide further recent examples, based on events that have occurred even since my May 23, 2011 Declaration, in which certain carriers have informed Neutral Tandem that they have multiple competitive options available to them for local transit service, and have demanded price reductions for this service. This Declaration also will recount Neutral Tandem’s experience in Connecticut, after the state commission ordered the ILEC in that state to begin providing local transit service at TELRIC-based rates.

I. RECENT MARKET DEVELOPMENTS SINCE NEUTRAL TANDEM’S MAY 2011 COMMENTS.

5. I have reviewed that part of the comments Comcast submitted on August 24, 2011 in which Comcast asserts that “competitive tandem switching facilities are not widely available[.]” (Comcast’s Aug. 24, 2011 Comments, at 8.)

6. [REDACTED]

7. [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

8. [REDACTED]

[REDACTED]

[REDACTED]

9. [REDACTED]

[REDACTED]

[REDACTED]

10. [REDACTED] I find it amazing that Comcast can claim in its comments to this Commission that “competitive tandem switching facilities are not widely available[.]” (Comcast’s Aug. 24, 2011 Comments, at 8.) That is simply not the case.

11. In addition to Comcast, I have reviewed that part of the comments filed by MetroPCS in which it asserts that the pricing of local transit service by ILECs “needs to be promptly addressed by the Commission.” (Aug. 24, 2011 Comments of MetroPCS, at 20.)

12. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

13. [REDACTED]

14. [REDACTED]

III. NEUTRAL TANDEM'S EXPERIENCE IN CONNECTICUT.

14. I am aware that several carriers have submitted comments in this proceeding relying on recent decisions from the state commission and federal district court in Connecticut, which have resulted in the ILEC in that state being forced to make local transit service available at TELRIC-based rates.

15. I note at the outset that several carriers advocating that the FCC adopt TELRIC-based pricing for ILEC local transit – including Comcast, Cox, Charter, and MetroPCS – participated in the Connecticut proceeding, and made similar arguments.

16. [REDACTED]

17. [REDACTED]

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18.


[REDACTED]

19.

[REDACTED]

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I declare, under penalty of perjury, that the foregoing is true and correct to the best of my knowledge, information, and belief.



Surendra Saboo

Date: 9/6/2011

Exhibit B

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2010

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-33778

NEUTRAL TANDEM, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

31-1786871
(I.R.S. Employer
Identification No.)

**550 West Adams Street
Suite 900
Chicago, Illinois**
(Address of Principal Executive Offices)

60661
(Zip Code)

Registrant's telephone number, including area code (312) 384-8000

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.001 Par Value Per Share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates of the registrant on June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was \$358,724,655 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer, director and each other person known to the registrant who beneficially owns more than 5% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 11, 2011, the registrant had 33,220,694 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Neutral Tandem, Inc. definitive Proxy Statement for its 2011 Annual Meeting of Stockholders to be filed with the

Commission pursuant to Regulation 14A not later than 120 days after December 31, 2010 are incorporated by reference in Part III of this Form 10-K.

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NEUTRAL TANDEM, INC.
FORM 10-K
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PART I

ITEM 1. BUSINESS

Our Company

We provide U.S. and international voice, IP Transit, and Ethernet telecommunications services primarily on a wholesale basis. We offer these services using an all-IP network, which enables us to deliver global connectivity for a variety of media, including voice, data and video. Our solutions enable carriers and other providers to deliver telecommunications traffic or other services where they do not have their own network or elect not to use their own network. These solutions are sometimes called "off-net" services. We also provide our solutions to customers, like content providers, who also typically do not have their own network. We were incorporated in Delaware on April 19, 2001 and commenced operations in 2004.

For the year ended December 31, 2010, we increased revenue to \$199.8 million, an increase of 18.3% compared to \$168.9 million for the year ended December 31, 2009. Our income from operations for the year ended December 31, 2010 was \$54.1 million compared to \$64.0 for the year ended December 31, 2009. Net income for the year ended December 31, 2010 was approximately \$32.6 million compared to net income of \$41.3 million for the year ended December 31, 2009.

Voice Services

We provide voice interconnection services primarily to competitive carriers, including wireless, wireline, cable and broadband telephony companies. Competitive carriers use our tandem switches to interconnect and exchange local and long distance traffic between their networks without the need to establish direct switch-to-switch connections. Competitive carriers are carriers that are not Incumbent Local Exchange Carriers, or ILECs, such as AT&T, Verizon and Qwest.

Prior to the introduction of our local voice service, competitive carriers generally had two alternatives for exchanging traffic between their networks. The two alternatives were interconnecting to the ILEC tandems or directly connecting individual switches, commonly referred to as "direct connects." Given the cost and complexity of establishing direct connects, competitive carriers often elected to utilize the ILEC tandem as the method of exchanging traffic. The ILECs typically required competitive carriers to interconnect to multiple ILEC tandems with each tandem serving a restricted geographic area. In addition, as the competitive telecommunications market grew, the process of establishing interconnections at multiple ILEC tandems became increasingly difficult to manage and maintain, causing delays and inhibiting competitive carrier growth, and the purchase of ILEC tandem services became an increasingly significant component of a competitive carrier's costs.

The tandem switching services offered by ILECs consist of local transit services, which are provided in connection with local calls, and switched access services, which are provided in connection with long distance calls. Under certain interpretations of the Telecommunications Act of 1996 and implementing regulations, ILECs are required to provide local transit services to competitive carriers. ILECs generally set per minute rates and other charges for tandem transit services according to rate schedules approved by state public utility commissions, although the methodology used to review these rate schedules varies from state to state. ILECs are also required to offer switched access services to competing telecommunications carriers under the Telecommunications Act of 1996 and implementing regulations. ILECs generally set per minute rates and other charges for switched access services according to mandated rate schedules set by the Federal Communications Commission, or FCC, for interstate calls and by state public utility commissions for intrastate calls. Our solution enables competitive carriers to exchange traffic between their networks without using an ILEC tandem for both local and long distance calls.

A loss of ILEC market share to competitive carriers escalated competitive tensions and resulted in an increased demand for tandem switching. Growth in intercarrier traffic switched through ILEC tandems created

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switch capacity shortages known in the industry as ILEC "tandem exhaust," where overloaded ILEC tandems became a bottleneck for competitive carriers. This increased call blocking and gave rise to service quality issues for competitive carriers.

We founded our company to solve these interconnection problems and better facilitate the exchange of traffic among competitive carriers and non-carriers. With the introduction of our services, we believe we became the first carrier to provide alternative tandem services capable of alleviating the ILEC tandem exhaust problem. By utilizing our managed tandem service, our customers benefit from a simplified interconnection network solution that reduces costs, increases network reliability, decreases competitive tension and adds network diversity and redundancy.

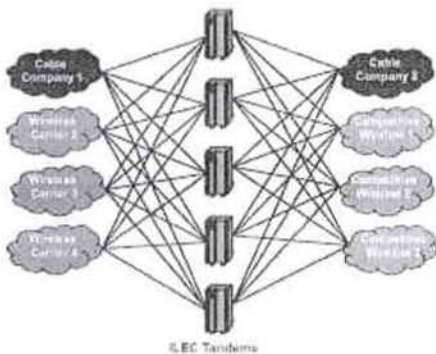
According to the Local Exchange Routing Guide, an industry standard guide maintained by Telcordia that is used by carriers, there are approximately 1.52 billion telephone numbers assigned to carriers in North America. Our services are principally targeted to address the estimated 840 million, or 55% of the total 1.52 billion, telephone numbers assigned primarily to competitive carriers; that is, all carriers that are not ILECs.

We have signed voice services agreements with major competitive carriers and non-carriers and operated in 179 markets as of December 31, 2010. During the fourth quarter of 2010, our network carried 29.9 billion minutes of traffic. As of December 31, 2010, our network was capable of connecting calls to an estimated 526 million telephone numbers assigned to carriers. Telephone numbers assigned to a carrier may not necessarily be assigned to, and in use by, an end user.

Our business originally connected only local traffic among carriers within a single metropolitan market. In 2006, we installed a national IP backbone network connecting our major local markets. In 2008, we began offering terminating switched access services and originating switched access services. Switched access services are provided in connection with long distance calls. Our terminating switched access services allows interexchange carriers to send calls to us and we then terminate those calls to the appropriate terminating carrier in the local market in which we operate. Our originating switched access service allows the originating carrier in the local market in which we operate to send calls to us that we then deliver to the appropriate interexchange carrier that has been selected to carry that call. In both instances, the interexchange carrier is our customer, which means that it is financially responsible for the call. On October 1, 2010, we acquired Tinet S.p.A. (Tinet), an Italian corporation that operates a global IP backbone network. As a result of the foregoing, our service offerings now include the capability of switching and carrying local, long distance and international voice traffic.

The following diagrams illustrate interconnecting in a local market via the ILEC tandem networks and an example of interconnecting via our managed tandem network.

Interconnecting via the ILEC Tandem Network within a Market



Interconnecting via Neutral Tandem Network within a Market

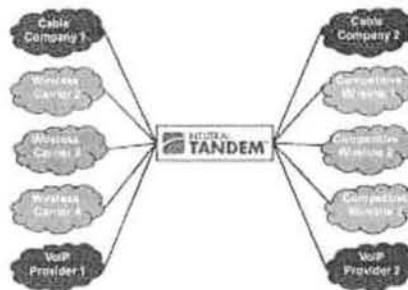


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Following the introduction of our services, we began to face competition from other non-ILEC carriers, including Level 3, Hypercube and Peerless Network. Over the past several years, competition has intensified causing us to lose some traffic as well as significantly reduce certain rates we charge our customers in various markets, including with respect to our major customers. For a further discussion see “Risk Factors—Our tandem services business faces competition from the traditional ILECs and increasing competition from certain other providers such as Level 3 Communications, Peerless Network and Hypercube, and we expect to compete with new entrants to the tandem services market...” in Item 1A below.

The second alternative for exchanging traffic, prior to our commencement of operations, was by directly connecting competitive carrier switches to each other. Implementing direct switch-to-switch network connections between all competitive switches in a market can be challenging. For example, in order to completely bypass the ILEC tandem network, a market with 100 competitive switches would require 9,900 direct one-way switch-to-switch connections. The capital and operating expense requirements, complexity and management challenges of establishing and maintaining direct connections generally makes them economical only for higher traffic switch combinations. However, where sufficient traffic between switches does exist, carriers often do establish direct connections. We believe that our customers are currently frequently establishing direct connections between their networks, even for what might be considered by historical standards to be lower traffic switch pair combinations, for various reasons, including in order to avoid paying a transit fee. For a further discussion see “Risk Factors—The market for our services is competitive and increased adoption of IP switching technologies could increase the competition we face from direct connections” in item 1A below. When our customers implement a direct connection, it reduces the traffic we carry and the revenue we earn.

Our solutions potentially help minimize these network failures and interconnection problems by offering physically diverse tandem switching facilities and transmission paths that increase network reliability. We also simplify the ordering, provisioning and capacity management requirements of our customers, and seek to leverage our extensive interconnection network to capitalize on the growth of intercarrier traffic.

Data and International Services

As part of our long-term growth strategy, on October 1, 2010, we acquired Tinet, an Italian corporation. Tinet was founded in Cagliari, Italy in 2002. Tinet provides IP Transit and Ethernet services primarily to carriers, service providers and content providers worldwide.

With this acquisition, we evolved from a primarily U.S. voice interconnection company into a global IP-based network services company focused on delivering global connectivity for a variety of media, including voice, data and video. The acquisition expanded our IP-based network internationally, enabling global end-to-end delivery of wholesale voice, IP Transit and Ethernet solutions.

We have IP Transit and Ethernet service agreements with over 650 customers in over 70 countries. In 2010, we carried over 1 Terebit of customer IP traffic. We have over 100 points of presence (POPs) where we operate our equipment in carrier neutral facilities. Our core IP Transit network uses all Juniper equipment, which reduces complexity and allows for faster service deployment, easier customer support and spare management flexibility.

We believe overall internet traffic has grown exponentially over the previous years due to factors that include:

- Increased broadband penetration in many countries in Asia and Eastern Europe;
- Increase in user generated content (UGC) shared via multiple platforms such as YouTube, Facebook, etc.;
- Multimedia mobile devices capable of taking pictures and videos;
- Video streaming and internet-based video communications; and
- The use of file sharing portals.

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Revenue

We generate revenue from sales of our voice, IP Transit and Ethernet services. Revenue is recorded each month based upon documented minutes of traffic switched or data traffic carried for which service is provided, when collection is probable. Voice revenue is recorded each month on an accrual basis based upon minutes of traffic switched by our network by each customer, which we refer to as minutes of use. The rates charged per minute are determined by contracts between us and our customers or by filed and effective tariffs.